London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 5 October 2022

Subject:	**LGPS Latest Developments and Update**
Cabinet Member:	**Cllr Leaver**
Executive Director:	**Fay Hammond**
Key Decision:	**[ ]**

Purpose of Report

1. This report provides an update on several general developments affecting the Local Government Pensions Scheme. One of the functions of the Committee is to meet the Councils duties in respect of the efficient management of the pension fund.

2. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Proposal(s)

3. Pension Policy and Investments Committee are recommended to:

   i) note the contents of this report;

   ii) note the consultation for LGPS to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) for Local Government Pension Scheme Governance and reporting of climate change risks; and

   iii) note the proposals in the consultation Governance and reporting of climate change risks and are asked to share their views for inclusion in the consultation response before 18 November 2022.

Reason for Proposal(s)

4. For effective and efficient management of the Fund.

5. There is a requirement for the Committee to be kept up to date with current issues and legislative developments to support and effect the effective discharging of their role.

6. **Relevance to the Council's Corporate Plan**

7. Good homes in well-connected neighbourhoods.

8. Build our Economy to create a thriving place.

9. Sustain Strong and healthy Communities.

Background

Task Force on Climate-Related Financial Disclosures (TCFD)

10. The long-awaited consultation on climate risk disclosures in the Local Government Pension Scheme (LGPS) finally dropped on 1 September. Department for Levelling Up Housing and Communities (DLUHC) is consulting on proposals for new requirements on LGPS administering authorities. The consultation is for 12 weeks to 24 November 2022.

11. This consultation seeks views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

12. Under the proposals, from 2024 all funds in England and Wales will need to prepare an annual Climate Risk report following Task Force on Climate-Related Financial Disclosures (TCFD) principles.

13. The new requirements on which they are consulting are discussed throughout this document. https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks

14. For ease, the key proposals are summarised below.

Summary of proposals

15. Each LGPS Administering Authorities (AA) must complete the actions listed below and summarise their work in an annual Climate Risk Report.

16. The proposed regulations will apply to all LGPS Administering Authorities. The first reporting year will be the financial year 2023/24, and the regulations are expected to be in force by April 2023. The first reports will be required by December 2024.

17. AAs will be expected to establish and maintain, on an ongoing basis, oversight of climate related risks and opportunities. AAs must also maintain a process or processes by which they can satisfy themselves that officers and advisors are assessing and managing climate-related risks and opportunities.

18. AAs will be expected to identify climate-related risks and opportunities on an ongoing basis and assess their impact on their funding and investment strategies.

19. AAs will be required to carry out two sets of scenario analysis. This must involve an assessment of their investment and funding strategies. One scenario must be Paris-aligned (meaning it assumes a 1.5 to 2 degree temperature rise above pre-industrial levels) and one scenario will be at the choice of the AA. Scenario analysis must be conducted at least once in each valuation period.

20. AAs will be expected to establish and maintain a process to identify and manage climate-related risks and opportunities related to their assets. They will have to integrate this process into their overall risk management process.

21. AAs will be expected to report on metrics as defined in supporting guidance. The proposed metrics are set out below.

    i) **Metric 1** - will be an absolute emissions metric. Under this metric, AAs must, as far as able, report Scope 1, 2 and 3 greenhouse gas (GHG) emissions.

    ii) **Metric 2** - will be an emissions intensity metric. Whereby all AAs would report the Carbon Footprint of their assets as far as they are able to. Selecting an alternative emissions intensity metric such as Weighted Average Carbon Intensity (WACI) will be permitted, but AAs will be asked to explain their reasoning for doing so in their Climate Risk Report.

    iii) **Metric 3** - will be the Data Quality metric. Under the Data Quality metric, AAs will report the proportion the value of its assets for which its total reported emissions were Verified*, Reported**, Estimated or Unavailable.

    iv) **Metric 4** - will be the Paris Alignment Metric. Under the Paris Alignment metric, AAs will report the percentage of the value of their assets for which there is a public net zero commitment by 2050 or sooner.

    v) Metrics must be measured and disclosed annually.

22. AAs will be expected to set a target in relation to one metric, chosen by the AA. The target will not be binding. Progress against the target must be assessed once a year, and the target revised if appropriate. The chosen metric may be one of the four mandatory metrics listed above, or any other climate related metric recommended by the TCFD.

23. AAs will be expected to publish an annual Climate Risk Report. This may be a standalone report, or a section in the AA’s annual report The deadline for publishing the Climate Risk Report will be 1 December, as for the AA’s Annual Report, with the first Climate Risk Report due in December 2024. DLUCH propose that scheme members must be informed that the Climate Risk Report is available in an appropriate way.

24. DLUCH propose that the Scheme Advisory Board (SAB) should prepare an annual Scheme Climate Report including a link to each individual AA’s Climate Risk Report (or a note that none has been published) and aggregate figures for the four mandatory metrics. We also propose that a list of the

targets which have been adopted by AAs. We are open to views as to whether any other information should be included in the Scheme Climate Report.

25. DLUCH propose to require that each AA take proper advice when making decisions relating to climate-related risks and opportunities and when receiving metrics and scenario analysis.

26. Members are asked to note the proposals and share their views for inclusion in the consultation response before 24 November.

Employee exit payment consultation

27. On 8 August HM Treasury published the latest instalment of the £95k exit cap saga. https://www.gov.uk/government/consultations/public-sector-exit-payments-a-new-controls-process-for-high-exit-payments

28. Rather than apply an absolute cap to exit payments, the new proposal seeks to tighten up the approval process and to give the relevant department's Secretary of State the final say on whether a £95,000 plus payment can be made. The expectation is that approval will only be granted in exceptional circumstances. The consultation relates only to central government, which means that it will cover academies and it will also include pension strain in the £95k calculation. It remains to be seen whether DLUHC will seek to apply something similar to local authorities.

GAD Cost cap results

29. On 29 June 2022, the Government Actuary's Department published the results of the first cost cap valuation for LGPS (England and Wales). The cost cap was introduced by the Public Service Pensions Act 2013. The Act requires the setting of an employer cost cap rate against which changes in the cost are to be measured. If the cost changes and falls outside a two per cent corridor above / below the rate, action must be taken to bring the cost back to the rate.

30. The results of the first valuations show that the cost has remained within the two per cent corridor for both schemes. This means no changes to benefits or member contributions are needed. The employer cost cap rate for LGPS (England and Wales) is 14.6 per cent. The results for the valuation as at 31 March 2016 show that the cost is 1.2 per cent below the cost cap rate.

31. A new Regulation passed on 13 July 2022 now increases the specified margins for the cost cap introduced by the Public Service Pensions Act 2013. Regulation 3 – the specified margins are the margins in which scheme costs must remain before corrective action is taken. The margins are currently set at two percentage points above and below the employer cost cap rate. The new regulations amend this to three percentage points. HMT intends that all three changes will be in place for the 2020 cost cap valuation.

Academy Guarantee

32. Government confirms academy guarantee will continue after a reassessment; the Government confirmed on 21 July 2022 in a written ministerial statement that it will continue to provide the academy guarantee. The annual ceiling will also increase to £20 million.

33. In 2013, the Government introduced the academy guarantee. The guarantee provides that, in the event of an academy closing, any outstanding liabilities will not revert to the LGPS fund. Although there is no end date to the guarantee, the Government is committed to regularly reassessing it to determine whether it remains affordable and is fully recognised by administering authorities. The Scheme Advisory Board in England and Wales has also published a news article on this. Pensions

HMRC Clarification on annual allowance changes

34. These was in respect of new requirements on administering authorities to recalculate annual allowance amounts for previous years in certain situations when the employer informs the scheme of changes in pay that result in recalculations. Where the recalculation shows an annual allowance excess, the authority must issue a pension savings statement to the member and inform HMRC about this on an event report.

35. Administering Authorities must tell "HMRC within three months of the date the statement is sent to the member, or if later, by 31 January following the tax year to which the [event] report relates. The LGA's understanding although yet to be clarified is that "the tax year to which the report relates" refers to the tax year in which the authority issues the statement to the member. For example, an authority issues the statement on 1 October 2023 telling a member they exceeded the annual allowance in tax year 2019/20.

36. The deadline under 3(9)(a) would be 31 December 2023. The deadline under 3(9)(b) would be 31 January 2025. However, LGA are unsure whether their understanding was correct as it would mean the deadline in 3(9)(a) could never apply. HMRC will consider amending the regulations to remove the redundant deadline in 3(9)(a). Administering authorities are to ensure that their processes are in line with HMRC's clarification.

Updated TPR guidance

37. Earlier this month it was announced that The Pensions Regulator ("TPR") would take responsibility for the regulation of certain duties of governing bodies from the Competition and Markets Authority. These include the requirements to set strategic objectives for investment consultants and the process for appointing fiduciary managers. The transfer will take place on 1 October 2022. No material changes in the regulations are planned though TPR has taken the opportunity to extend the range of schemes to which they apply and to tighten the requirements relating to the review of objectives/performance. Governing bodies must continue to self-certify compliance with the regulations. As a result, we expect the transfer to have limited impact on most funds. https://www.thepensionsregulator.gov.uk/en/media-hub/press-releases/2022-

press-releases/revised-tendering-for-fmps-and-setting-objectives-for-fiduciary-managers-guidance-by-tpr

Good Governance gets ministerial approval

38. After some delay, it is heartening to learn that DLUHC ministers have agreed to take forward the SAB's Good Governance recommendations. Summarised below are the key points:

i) DLUHC have broadly accepted all recommendations (subject to consultation).

ii) The plan is to bring the recommendations into law using both secondary legislation and statutory guidance.

iii) There will be an additional requirement to implement a workplace strategy around planning and resourcing.

iv) Timescales are a bit vague, but a draft regulation is expected late this year and guidance early next year.

v) The Scottish SAB might ask Scottish ministers to introduce Good Governance in Scotland.

PLSA publishes 'Cyber Risk Made Simple' guide

39. Further to our article last month, The Pensions and Lifetime Savings Association have now published the latest in its series of Made Simple guides. Produced in partnership with Aon and Crowe, the guide aims to help pensions professionals understand cyber risk and the skills and processes needed to deal with it.

40. The guide includes analysis of Aon's cyber scorecard, which is also now produced in partnership with PLSA and the summer 2022 version is still available for funds to complete.

41. The link to the document: https://www.plsa.co.uk/Portals/0/Documents/Policy-Documents/2022/Cyber-Risk-Made-Simple-June-2022.pdf

Dashboard Update and PDP consultation

42. Department of Works and Pensions ("DWP") responds to consultation on the draft pensions dashboards regulations on 14 July 2022. The key areas of the response that affect LGPS administering authorities are set out below.

43. The staging deadline for the LGPS and all other public service pension schemes will be deferred from 30 April 2024 to 30 September 2024. Schemes will be expected to meet the required standards (connection, security and technical) by 30 September 2024.

44. They must also, by that date, be able to respond to find requests, complete matching and provide administrative and signpost data on request.

Administering authorities will need to be able to provide value data (accrued and projected values) by 1 April 2025. Though they can provide this earlier if they wish.

45. The key headline for Public Sector Schemes (PSS) is that the staging deadline has been delayed from 30 April 2024 to 30 September 2024 to provide more time for the McCloud remedy to be implemented.

46. PSS will not need to provide value data (accrued and projected pension values) for members immediately – the LGPS will need to provide this by 1 April 2025 but can volunteer this before then. The other PSS will need to provide this at the earlier date of 1 April 2025, or the date that they issue the member with a Remediable Service Statement.

47. Hot on the heels of DWP’s response, the Pensions Dashboards Programme (PDP) launched a consultation on dashboard standards and guidance and a call for input on the design standards. The consultation and call for input will close on 30 August 2022.

48. Dashboard standards will set out what providers and pension schemes are compelled to do by law and will include mandatory requirements to ensure the dashboard ecosystem is secure and puts members first. Non-compliance with standards could result in regulatory sanctions from the Pensions Regulator. The following seven standards are published for consultation:

i) Operational standards

ii) Security standards

iii) Service standards

iv) Data standards

v) Reporting standards

vi) Application programming interface standards

vii) Technical (other) standards

49. The dashboards guidance doesn’t have full legal status but sets out what providers and schemes must have regard to and therefore should be treated as best practice. There are four sets of guidance published for consultation:

i) Connection guidance

ii) Data usage guidance

iii) Technical overview guidance

iv) Early connection guidance

50. It is expected that legislation will be in place in November or December 2022, at which point the final standards and guidance will be confirmed and issued.

51. Planning ahead of the launch of Pensions Dashboards continues. The PASA has published a checklist to help schemes prepare for the provision of 'value data' (about accrued and projected benefits). https://www.pasa-uk.com/wp-content/uploads/2022/08/Dashboards-Pensions-Values-Guidance-FINAL.pdf

52. **The FRC** is looking for pension funds and investment consultants to participate in a new project exploring ***how people use asset managers' stewardship reports.*** The deadline for volunteering is 16 September. https://www.frc.org.uk/news/august-2022/call-for-participants-stewardship-reporting

53. **The Government has launched the Public Sector Fraud Authority**, with the purpose of tackling fraud against the public purse (including public sector pensions). https://www.gov.uk/government/news/government-launches-fraud-squad

54. The High Court has dismissed a judicial review claim by three large private sector schemes against the Government over plans by the UK Statistics Authority to align the Retail Prices Index (RPI) with the housing cost-based version of the Consumer Prices Index (CPIH) from 2030. https://www.judiciary.uk/wp-content/uploads/2022/09/BT-Pension-Scheme-Trustees-v-UKSA-summary-010922.pdf

Safeguarding Implications

55. None.

Public Health Implications

56. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

57. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

58. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

59. It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more

effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund.

60. The monitoring arrangement for the Pension Fund and the work of the Pension Board should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

61. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

62. It is important to keep abreast on current issues to facilitate the rigorous and robust management of the Pension Fund for a better, quicker and more effective decision-making process which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. There are no immediate financial implications arising from this report as this report provides an update on several general developments affecting the Local Government Pensions Scheme.

Legal Implications

63. This report provides an update on several general developments affecting the Local Government Pensions Scheme. One of the functions of the Pensions Board is to meet the Councils duties in respect of the efficient management of the pension fund. And so it is appropriate, having regard to these matters, for the Committee to receive information about general developments affecting the Local Government Pensions Scheme. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.

Workforce Implications

64. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

65. None

Other Implications

66. None

Options Considered

67. No alternative options considered.

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Appendices
None

Background Papers
None